

DEC 20 2001

STATE OF ARIZONA  
DEPARTMENT OF INSURANCE

DEPT. OF INSURANCE  
BY [Signature]

In the Matter of:

**BANKERS STANDARD INSURANCE COMPANY,**

NAIC # 18279,

Respondent

) Docket No. 01A-289-INS

) **CONSENT ORDER**

Examiners for the Department of Insurance (the "Department") conducted a market conduct examination of Bankers Standard Insurance Company ("BSI"). The Report of Examination of the Market Conduct Affairs of BSI alleges that BSI violated A.R.S. §§ 20-357, 20-385, 20-400.01, 20-448, and 20-1677.

BSI wishes to resolve this matter without formal adjudicative proceedings, neither admits nor denies that the following Findings of Fact and Conclusions of Law are true, and consents to the entry of the following Order.

**FINDINGS OF FACT**

1. BSI is authorized to transact property and casualty insurance pursuant to Certificates of Authority issued by the Director.

2. The Examiners were authorized by the Director to conduct a market conduct examination of BSI. The on-site examination covered the time period from June 1994 to May 1998 and was concluded on June 8, 1998. Based on their findings, the Examiners prepared the "Report of Examination of the Market Conduct Affairs of Bankers Standard Insurance Company" on October 30, 1998.

1           3.     BSI is a member of the National Council on Compensation Insurance  
2 ("NCCI") and a member of the Insurance Service Office ("ISO"), a property and  
3 casualty rating organization duly licensed by the Department to file rates and forms on  
4 behalf of its members. BSI has also independently filed certain rates and forms. Such  
5 rates rules and forms filed by the BSI, or filed on its behalf, are included in this Order's  
6 reference to BSI's "filed rates and rules."

7           4.     The Examiners reviewed 36 workers' compensation (WC) policies issued  
8 by the Company during the time frame of the examination and found as follows:

- 9               a.     BSI used an unfiled premium payment plan on eight WC policies.
- 10              b.     BSI used a different modification on one WC policy.
- 11              c.     BSI failed to complete the ERM #14 form on four WC policies.

12          5.     The Examiners reviewed 32 commercial automobile (CA) policies and 52  
13 commercial package (PKG) policies issued by the Company during the time frame of  
14 the examination and found as follows:

- 15              a.     BSI failed to document debit/credit changes in its schedule rating  
16 plan on nine PKG policies and ten CA policies.
- 17              b.     BSI applied experience credit/debit to one ineligible PKG insured.
- 18              c.     BSI failed to apply experience rating to eligible insureds on two  
19 PKG policies and eight CA policies.
- 20              d.     BSI used unfiled liquor liability rates/loss costs on two PKG  
21 policies.
- 22              e.     BSI failed to produce records or to document experience  
23 calculations on 38 CA policies.
- 24              f.     BSI failed to produce records on five PKG policies.

1 g. BSI failed to follow its experience rating plan by not applying actual  
2 plan premiums on six PKG policies.

3 h. BSI used incorrect loss development factors on three PKG  
4 policies.

5 i. BSI used incorrect maximum single losses on nine PKG policies.

6 j. BSI used incorrect expected loss ratios on three PKG policies.

7 k. BSI did not use known losses on one CA and four PKG policies.

8 l. BSI failed to use the correct increase limit factor on 18 PKG  
9 policies.

10 m. BSI failed to use published specific rates on 11 PKG policies.

11 n. BSI failed to use filed class rates on five PKG policies.

12 o. BSI failed to use the correct filed loss cost on eight PKG policies  
13 and 21 CA policies.

14 p. BSI did not use the premium payment as filed on 16 PKG policies.

15 q. BSI did not follow the employee benefit liability filing on 15 PKG  
16 policies.

17 r. BSI did not rate for all coverages and exposures on 8 PKG  
18 policies.

19 s. BSI used unfiled guide "a" rates on 19 PKG policies.

20 t. BSI did not use the correct minimum premium on six PKG policies.

21 u. BSI applied a deviation that was not eligible on two PKG policies.

22 v. BSI exceeded its filed schedule rating plan on two CA policies.

23 w. BSI did not document or justify the change of credits on ten CA  
24 policies.

25 x. BSI used an unfiled expense reduction factor on four CA policies.



1 y. BSI failed to use the correct cost new on nine CA policies.

2 z. BSI did not send a 60-day notice of increase or change of premium  
3 on eight PKG policies.

#### 4 5 **CONCLUSIONS OF LAW**

6 1. BSI violated A.R.S. § 20-400.01(D) by failing to document debit/credit  
7 changes in its schedule rating plan and by failing to produce records.

8 2. BSI violated A.R.S. §§ 20-400.01(A) and 20-357(E) by issuing policies  
9 whose premiums have been developed in a manner that is inconsistent with their filed  
10 rates and rules.

11 3. BSI violated A.R.S. § 20-400.01(B) by failing to document experience  
12 calculations.

13 4. BSI violated A.R.S. § 20-1677 by failing to send a 60-day notice of an  
14 increase in premium, change in deductible, reduction in limits, or substantial reduction  
15 in coverage.

16 5. BSI violated A.R.S. §§ 20-385(A) and 20-400.01(A) by failing to file all  
17 rates used to develop premiums.

18 6. BSI violated A.R.S. § 20-357(A) and 20-400.01(A) by using an unfiled  
19 premium payment plan.

20 7. BSI violation A.R.S. §§ 20-400.01(A) and 20-448 by failing to apply  
21 experience rating to eligible insureds, by applying experience rating to ineligible  
22 insureds, and by not using known losses in its experience calculations.

23 8. BSI violated A.R.S. § 20-400.01(A) by failing to follow its experience  
24 rating plan by not applying actual plan premiums, using incorrect loss development  
25 factors, incorrect maximum single losses and incorrect expected loss ratios.

9. Grounds exist for the entry of the following Order in accordance with A.R.S. §§ 20-220 and 20-456.

## ORDER

**IT IS HEREBY ORDERED THAT:**

1. BSI shall cease and desist from the following acts:
  - a. Failing to document experience calculations.
  - b. Failing to apply experience rating to eligible insureds and applying experience rating to non eligible insureds.
  - c. Failing to use known losses on experience calculations.
  - d. Failing to document debit/credit changes in its schedule rating plan.
  - e. Failing to follow its experience rating plan in the area of plan premiums, loss development factors, expected loss ratios and correct maximum single losses.
  - f. Using unfiled expense reduction factors.
  - g. Not rating for all coverages and exposures.
2. Within 90 days of this Order's filed date, BSI shall submit to the Arizona Department of Insurance, for approval, evidence that corrections have been implemented and communicated to the appropriate personnel, regarding the issues outlined in Item 1 of the Order section of this Consent Order. Evidence of corrective action and communication thereof includes, but is not limited to, memos, bulletins, emails, correspondence, procedures manuals, print screens, and training materials.
3. Within 90 days of the filed date of this Order, BSI shall reimburse the 11 policyholders listed in Exhibit A of this Order, who were overcharged. Interest shall be

1 paid at the rate of ten percent per annum, calculated from the date that the premium  
2 was paid, until the date of the reimbursement. Each payment shall include a letter to  
3 the insured in a form previously approved by the Director. A list of payments, giving  
4 the name and address of each party paid, the amount of interest paid, and the date of  
5 payment, shall be provided to the Department within 90 days of the filed date of this  
6 Order.

7 4. The Department shall be permitted, through authorized representatives,  
8 to verify that BSI has complied with all provisions of this Order.

9 5. BSI shall pay a civil penalty of \$20,000 to the Director for remission to the  
10 State Treasurer for deposit in the State General Fund in accordance with A.R.S. §§ 20-  
11 220(B). The civil penalty shall be provided to the Market Conduct Examinations  
12 Section of the Department prior to the filing of this Order.

13 6. The Report of Examination of the Market Conduct Affairs of Bankers  
14 Standard Insurance Company as of October 30, 1998 including the letter of objection to  
15 the Report of Examination shall be filed with the Department after the Director has filed  
16 this Order.

17  
18 DATED at Phoenix, Arizona this 20<sup>th</sup> day of December, 2001.

19  
20 

21  
22 **Charles R. Cohen**  
23 **Director of Insurance**  
24  
25



**EXHIBIT A**

Failure to develop premiums in accordance with filed rates and rules.

A.R.S. § 20-400.01(A)

Account # 1	\$397.00
Account # 3	\$319.00
Account # 5	752.00
Account # 6	\$84.00
Account # 9	\$673.00
Account # 18	\$3,090.00
Account # 19	\$198.00
Account # 30	\$127.00
Account # 32	\$601.00
Account # 38	\$674.00
Account # 39	\$630.00
Total	\$7,545.00

**CONSENT TO ORDER**

1. Bankers Standard Insurance Company has reviewed the foregoing Order.

2. Bankers Standard Insurance Company admits the jurisdiction of the Director of Insurance, State of Arizona, neither admits nor denies the foregoing Findings of Fact and Conclusions of Law, and consents to the entry of the Order.

3. Bankers Standard Insurance Company is aware of the right to a hearing, at which they may be represented by counsel, present evidence, and cross-examine witnesses. Bankers Standard Insurance Company irrevocably waives the right to such notice and hearing and to any court appeals related to this Order.

4. Bankers Standard Insurance Company states that no promise of any kind or nature whatsoever was made to them to induce them to enter into this Consent Order and that they have entered into this Consent Order voluntarily.

5. Bankers Standard Insurance Company acknowledges that the acceptance of this Order by the Director of the Arizona Department of Insurance is solely for the purpose of settling this matter and does not preclude any other agency or officer of this state or its subdivisions or any other person from instituting proceedings, whether civil, criminal, or administrative, as may be appropriate now or in the future.

6. RICHARD C. FRANKLIN, who holds the office of SENIOR VICE PRESIDENT of Bankers Standard Insurance Company, is authorized to enter into this Order for them and on their behalf.

**BANKERS STANDARD INSURANCE COMPANY**

12-3-01  
Date

By Richard C. Franklin

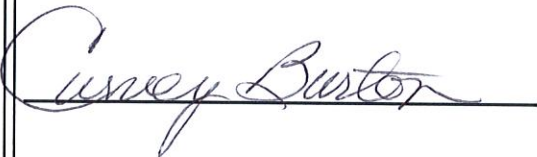


1 COPY of the foregoing mailed/delivered  
2 This 20th day of December 2001, to:

3 Sara Begley  
4 Deputy Director  
5 Mary Butterfield  
6 Assistant Director  
7 Consumer Affairs Division  
8 Paul J. Hogan  
9 Chief Market Conduct Examiner  
10 Deloris E. Williamson  
11 Assistant Director  
12 Rates & Regulations Division  
13 Steve Ferguson  
14 Assistant Director  
15 Financial Affairs Division  
16 Nancy Howse  
17 Chief Financial Examiner  
18 Alexandra Shafer  
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20 Life & Health Division  
21 Terry L Cooper  
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